

# **PRIVATISATION 1979-1994**

## **EVERYONE'S A WINNER**



**Angela Browning M.P.**

**Alan Duncan M.P.**

**Richard Ottaway M.P.**

**Richard Page M.P.**

**David Willetts M.P.**

*with a foreword by*

**The Rt. Hon. Michael Heseltine M.P.**

**CONSERVATIVE POLITICAL CENTRE £5.50**

Cover design: Graham Sumner

Cover illustrations:

*Top (left to right):*

The newly developed terminal at Glasgow Airport which will be completed in December 1994 at a cost of £60 million. (BAA Plc).

The Rough Field located in the UK sector of the southern North Sea approximately 18 miles off the coast of North Humberside. (British Gas Plc).

Thames Water's £250 million Thames Ring Main. It will supply half of London's drinking water. It is 80 km long and will be in full operation by the end of 1994.

*Centre:*

The floor of the London Stock Exchange when, in December 1986, a total of 4,025,000,000 25p Ordinary shares were offered to the public. (British Gas Plc).

---

CPC No. 865

ISBN: 8507 0872 9

Published by the Conservative Political Centre,  
32 Smith Square, London, SW1P 3HH and printed by  
Conservative Central Office, 32 Smith Square,  
London, SW1P 3HH

© Conservative Political Centre

First Published May 1994

# **PRIVATISATION 1979-1994**

## **EVERYONE'S A WINNER**

**Angela Browning M.P.**  
**Alan Duncan M.P.**  
**Richard Ottaway M.P.**  
**Richard Page M.P.**  
**David Willetts M.P.**

*with a foreword by*  
**The Rt. Hon. Michael Heseltine M.P.**

**CONSERVATIVE POLITICAL CENTRE £5.50**

**FOREWORD**  
**BY**  
**THE RT. HON. MICHAEL HESELTINE, M.P.,**  
**PRESIDENT OF THE BOARD OF TRADE**

This pamphlet was inspired by a remark by Sir Marcus Fox, Chairman of the 1922 Committee of Conservative Backbenchers. 'We need to sell our success stories more effectively' was the thrust of his message. No message deserves clearer articulation than the success of our privatisation programme. It would not have happened without the vision and courage of Conservative Ministers.

This pamphlet sets out the record of that achievement so far.

Memories can be short. It is all too easy to forget where we were in 1979, or how much we have achieved since then, or the ferocity of the political battles that had to be fought along the way, as the Conservative Government set out to liberate a vast range of industries from state control - setting them free to work for Britain in world markets.

Nationalisation of our industries was a central feature of post-war Labour Governments. Yet there are few people left today who would deny that, as a policy, it imposed intolerable burdens on the national economy and contributed significantly to the decline of the regions.

Nationalisation was designed to transfer 'the commanding heights of the economy' to state control. The naive political rationalisation at the time was that control would be vested in the people. In reality, power rapidly shifted to monopoly providers and monopoly producer unions. What power the people possessed was exercised by civil servants - who rapidly became both protector and confidant of the industries' self-interests - and, worse, by politicians ever mindful of the political convenience of the party in power.

The traditional - and, in the end, the only effective - disciplines of the market-place were replaced by ill-disciplined compromises and cash-consuming delay. The objectives of enhanced efficiency, increased productivity and a high quality of service played little part in the day-to-day practices or assumptions.

Industrial management, hitherto widely dispersed throughout the regions of the United Kingdom, was replaced by top heavy bureaucracies that were located largely in London. Perhaps most damaging of all, in virtually every case, inefficiency and a captive home market led to these key industries making little impression upon the markets of the world.

The battle-lines were drawn in 1979. The Conservative Manifesto made it clear that an incoming Tory Government would not only cancel Labour's plans to nationalise sectors such as construction, banking, insurance and pharmaceuticals, but would also

begin to reverse the whole process - by returning aerospace and shipbuilding to the private sector. Since then, successive Conservative Governments have pressed ahead with a programme which has resulted to date in fifty or so large privatisations and many more smaller ones.

Each privatisation has been unique. As each new opportunity has been identified, new solutions have had to be developed and implemented. But throughout the guiding principles have stayed the same:

- choice for customers;
- competition amongst suppliers;
- improved productivity and efficiency;
- employee participation and wider share ownership;
- value for the taxpayer; and
- clarity of purpose for the Government.

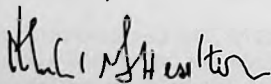
Today, the concept of state ownership of industry is bankrupt. Across the world, on all five continents, country after country is following the Conservative example and turning to the disciplines of the market-place as it seeks to dispose of its nationalised industries. This nation and this Government have led the way in showing them how to do it.

Even the Labour Party has lost the will to fight for the arcane socialist concepts typified by Clause IV. Yes, some of the socialist rhetoric remains. From time to time they re-parade the weary arguments that a tiny body of their constituents, and, of course, their union paymasters, want to hear. But you can tell their hearts aren't in it. The old fire and commitment have gone. Labour knows the tide of freedom that we have brought to the old nationalised industries is now irreversible here - and irreversible in so many countries, under governments ranging from the right of centre government of France to the socialists of China.

Perhaps the most damning reflection of the views of both Labour and Liberal spokesmen are the quotations littered through the text of this pamphlet of the forecasts they made at the time. Is there really any difference between Labour and Liberal on arguably one of the great issues of the day? It would be hard to find.

The reality is there for all to see. In 1979, the nationalised industries were costing the taxpayer £50 million per week in losses. Today, the newly privatised industries pay £60 million per week in taxes on the profits that they earn as private sector companies. And, most chilling of all for the Labour Party, six million new shareholders are willing to testify to, and to vote for, the success that privatisation has brought.

This pamphlet sets out the history, and the results, of one of the most significant revolutions of the late 20th century - a revolution which has been inspired and led by the Conservatives.



# CONTENTS

	Page
1. INTRODUCTION	8
2. WHY PRIVATISE?	13
The Effects of State Ownership and Control	13
Interference	13
Lack of Motivation	14
Confused Management	14
State-Determined Investment	14
Over-Regulation and Monopoly	16
The Purposes of Privatisation	16
Consumer Choice and Value	16
Wider Share Ownership	17
Self-Determination and Competitiveness	18
Separation of Interests	18
3. THE BENEFITS	20
Customer Service, Value and Choice	20
BT and Mercury: A Case Study in Competition	20
Electricity Supply: At the Flick of a Switch	22
British Gas: The First Privatisation too Far	23
Company Self-Determination and Competitiveness	25
Nationalised Manufacturing: Back from the Brink	25
Privatised Service Providers: Serving up Success	27
The Utilities: Power (and Water) to the Regions	29
Wider Share Ownership and Workforce Involvement	31
The Taxpayer: Returns and Relief	33
Government Separation of Roles	37
4. THE FUTURE	41

# 1. INTRODUCTION

The 1979 Conservative Manifesto committed the incoming Tory Government not only to relieve sectors like construction, banking, insurance and pharmaceuticals from the threat of Labour's plans to nationalise them, but to return aerospace and shipbuilding to the private sector. Thus started the programme which this pamphlet celebrates.

From the start, making markets work and encouraging employee ownership of shares in their firms were singled out as ways in which the Conservatives would enable industry to achieve the high levels of productivity which, alone, could secure the future of industry and the jobs in it. The nationalised industries were seen as a key part of this process. While government help to a company in difficulty was not ruled out, such help was to be temporary and tapered; the success or failure of companies was to be seen to lie in their own hands.

Having set its course, that Government and its Conservative successors realised that it would not be easy to transfer a diverse set of public sector organisations from Whitehall's protection into the more challenging world of commerce. It was recognised that there would be costs and casualties in attempting to revitalise and restructure the state sector of the economy. Equally, it was clear that, while such costs would be highly visible, locally concentrated and potentially politically costly, the benefits would, by intention, be spread across much wider customer, employee and investor communities. So, while every privatisation would have its full quota of critics, active supporters would be harder to find. Nevertheless, undeterred, successive Conservative governments have pressed ahead with the programme. There really was no rational alternative.

An obvious example of the diffuse spread of the benefits of privatisation is the overall gain for taxpayers. In 1979, the nationalised industries cost the taxpayer £50m. per week in losses. Today, the newly privatised industries pay £60m. per week in taxes on their profits as privatised companies. These and other achievements from privatisation and its close cousin, deregulation, make it easy to forget how contentious and problematic each privatisation was made to seem at the time. If the future had been left to those who saw no further than the costs and risks of change, or those whose flawed dogmas prevented them from learning, the United Kingdom's economic performance would have remained permanently disabled by an overblown state sector suffering the dead hand of government interference.

Every conceivable objection was raised. State companies could not, or should not, be sold. The changes of outlook, working practices and expectations required by a more competitive environment were too great to ask. Prices would rise and safety standards would fall as commercial motives entered into the thinking of enterprises that had come to see themselves, and be regarded by others, as cost rather than profit centres. Despite all the evidence from everyday experience, a carping combination of the temperamentally defeatist and the politically defeated simply could not grasp that customer choice, investor profit and company performance go hand in hand.

Fifteen years on, there is dramatic proof of the significance of privatisations. With countries across the globe now following the UK's example, the Conservative pioneers must have got something very right indeed. Equally, the Labour Party, which routinely opposes every privatisation, appears to have lost the will to learn.

Workforce imitators of the UK come from West European advanced economies, like France and Germany, as well as East European reforming economies. Far Eastern tigers like South Korea and Thailand are joining in. New Zealand and Australia have become converts in their own right. Third world countries like Brazil and Sri Lanka are seeing what is in it for them.

Meanwhile, the United Kingdom continues ahead. As new opportunities are sighted and obstacles to reform identified, new solutions are developed and implemented. Though circumstances change, the guiding principles remain:

Choice and value through competition;

Workforce involvement through ownership;

Clarity of purpose and of role for government; and the

Creation of world class companies.

This pamphlet takes stock of the progress of the fifty or so large, and many more smaller, privatisations over the past fifteen years. Their achievements show why the Government has stuck to its principles and will continue to do so.

# FIFTY MAJOR PRIVATISATIONS 1979-1994

Year of First Sale	Company	Proceeds £ million
1981	British Aerospace	389
	Cable & Wireless ('81,'83,'89)	1024
	BP ('81,'83,'87,'88,'89)	6278
	British Railways Board, including:	
	- British Transport Hotels (1983)	15
	- Sealink (1984)	65
	- BTA ('87)	40
	- Travellers Fare (1988)	21
	- BREL (1989)	14
1982	Amersham International	64
	National Freight Consortium	49
	Britoil ('82,'83,'85)	1053
1983	Associated British Ports	97
1984	British Telecommunications ('84,'91,'93)	14300
	Enterprise Oil	382
1985	British Shipbuilders, including:	
	- Scott Lithgow	12
	- Yarrow Shipbuilders (1985)	34
	- Vosper Thornycroft (1985)	19
	- Vickers Shipbuilding (1986)	60
1986	British Gas (inc. Enterprise Oil and Wyth Farm) ('84 and '90)	7861
	National Bus Company, to which add others including:	165
	- Busways	14
	- Yorkshire Rider	23
	- Scottish Bus	96
1987	British Leyland, including:	
	- Jaguar (1984)	195
	- Unipart (1987) including bonuses	52
	- Bus (1987)	4
	- Trucks (1987)	0
	- Rover Group (1988)	336
	- Istel	26

	British Airways, including BA Helicopters and International Aeradio	850
	Royal Ordnance	189
	Rolls Royce	1319
	British Airports Authority	1183
1986	British Steel, including Redpath Dorman Long and Victaulic	2453
1989	Water plcs comprising:	5239
	- Anglian	707
	- North West	854
	- Northumbrian	157
	- Severn Trent	849
	- South West	293
	- Southern	393
	- Thames	922
	- Welsh	346
	- Wessex	246
	- Yorkshire	472
1990	Girobank	112
	Regional Electricity Companies comprising:	5183
	- Eastern	648
	- East Midlands	523
	- London	523
	- Manweb	285
	- Midlands	503
	- Northern	295
	- NORWEB	415
	- SEEBOARD	306
	- Southern	648
	- South Wales	244
	- South Western	295
	- Yorkshire	498
	National Grid Co (owned by RECs)	
1991	Electricity Generators comprising:	2852
	- National Power	} joint sale
	- Powergen	
	Scottish Electricity Companies	3391
	- Scottish Power	} joint sale
	- Scottish Hydro Electric	

1992	British Technology Group, plus NEB investments, including:	28
	- ICL (1979)	37
	- Fairey (1980)	15
	- Ferranti (1980)	13
	- Inmos (1984)	95
	Trust Ports	139
	Northern Ireland Generating Companies	356
1993	Northern Ireland Electricity, partly paid	158

## 2. WHY PRIVATISE?

### **The Effects of State Ownership and Control**

Since 1979, privatisation has been at the forefront of the United Kingdom's economic strategy - being one of several policies to reduce the size and improve the responsiveness of the state sector. Related policies have given council tenants the right to buy their houses and have started to open up civil service, NHS and local government services to competition. Most recently, the Government's Private Finance Initiative has been launched to encourage commercial sector participation in the financing of projects which would otherwise have to wait for full taxpayer funding before being able to go ahead.

In 1979, nationalised industries accounted for about a tenth of Gross Domestic Product and of the Retail Price Index. They employed one and a half million people. As can be seen from the list of the fifty major privatisations to date set out above, they dominated the transport, energy, water, communications, steel, aerospace, automotive and shipbuilding sectors. In 1994, the remaining nationalised industries are responsible for less than four percent of GDP, and a hundredth of the RPI. Together, they now employ only 1.7% of the United Kingdom workforce.

The reasons for reducing the size and economic significance of the state sector remain as clear as ever. Its record on financial returns, prices, productivity and customer satisfaction was a continual source of frustration both for government and for the management of the organisations themselves. The reasons why performance would remain disappointing with state ownership were never in doubt.

### *Interference*

It is easy to see why nationalised industries tend to perform poorly. They too readily became the creatures of politicians and their officials - remote from customers and employees alike. Political, macro-economic and social factors were allowed to cut across the commercial and managerial imperatives that would normally determine the direction and long-term well-being of these enterprises. For example, politicians found it particularly difficult to resist interfering in the pricing policies of state industries.

A classic example occurred in the early 1970s when the British Gas Corporation was required to hold down domestic prices to soften the effects of OPEC oil shocks. But cheap gas undercut coal-fired electricity, adding to problems of excess capacity in the electricity supply and coal industries. Gas shortages developed, forcing the Corporation to turn away new industrial business and adding to the pressure to import more gas as domestic consumers abandoned their electric night-storage heaters and switched to gas. Not realising that no government could afford to let artificially low prices continue indefinitely, consumers were caught out as gas prices caught up with the market. Such nonsense was far from the exception. Too often management, worker representatives, Ministers and civil servants competed to steer the same ship.

### *Lack of Motivation*

Another reason why the nationalised industries, and some other public sector organisations, tend to perform poorly is their relative inability to provide their employees with proper incentives. If an organisation, any organisation, feels unable to encourage the urge people have to improve their lot, it is deeply flawed.

The need for incentives applies at the institutional, as much as at the individual, level. Workforces everywhere want their organisations to grow and to thrive. But in the public sector, they look to government, as sponsor, rather than to the customer, as the user of their goods or services, to further their interests. Moreover, when the state is the dominant influence over an organisation's prospects, such attitudes can reach dangerously deep into the wealth-creating parts of the economy. For example, private sector suppliers to the state sector can become supplicants for spending and subsidy no less than the state sector itself. In this way, manufacturers of mining and railway equipment, whole industries like construction and electronics, and the multiplicity of contractors to the energy sector, such as those in heavy engineering, join the queue outside the Minister's door looking for a steady stream of orders.

The historical record shows that such special pleading paid. As former Treasury Minister, John Moore, has pointed out, 'When the government owns, an owner's concerns dominate its thinking. If we look at parliamentary records for the 40-year period after World War II - when nationalisation was at its peak - debates on the state-owned industries focused on such things as investment needs, losses, debts, labour relations, and strike records. Little time was spent on Parliament's more diffuse obligation to consumers'.

### *Confused Management*

When government owns an industry, civil servants have no choice other than to be drawn into the role of politically-attuned overseer, second-guessing the decisions of state industry managers. To these unfortunates falls the unenviable task of steering their industries with one eye on the market-place and the other on Whitehall. Not surprisingly perhaps, there is not a single senior management team in any of the more than one hundred privatised companies that would prefer to return to state ownership.

Privatisation has shifted the government stance from that of owner-provider to that of watchdog-regulator - a shift of profound significance. Now, Ministerial attention and parliamentary concern can be focused upon service to customers, and less preoccupied with the demands of producers. There is no longer any reason for governments or managements to be confused about what is expected of them.

### *State-Determined Investment*

Perhaps the worst aspect of state ownership was the massive misallocation of public money through state-directed investment. So often, money spent responding to, but never meeting, the demands of state industry managements or unions could so much more usefully have been left with the commercial sector. That, at least, would have

reinforced a propensity to invest in response to consumer, rather than political, choices. We will never know what damage to our international competitiveness was caused by the large-scale displacement of commercial investment by government spending on state industries. Even within the public sector, stop-go investment and the mistakes inherent in centralised planning resulted in simultaneous over-investment in some industries (e.g. power generation, steel and shipbuilding) and under-investment in others (e.g. the water and sewerage industries). Error on this scale could not be allowed to continue.

Historically state ownership limited an industry's ability to look widely for loans and investment. When a state industry borrows, government underwrites its loans, making them indistinguishable from other public borrowing. Since government's top priority must be sound management of the economy as a whole, there are bound to be times when the needs of individual state enterprises fall foul of wider economic requirements. At the same time, public ownership meant that state industries could not attract genuine risk capital. Eliminating these constraints by means of privatisation permits industries to compete for investment. And this provides a strong incentive to improved performance, as enterprises seeking capital are subjected to the scrutiny of professionals paid to assess a company's use of resources and prospects in the marketplace.

How much privatisation has contributed to investment being higher in the privatised concerns than it otherwise would have been is impossible to know. But a few figures illustrate the impact of privatisation. From 1983 to 1985, public investment in gas, electricity and water averaged £2.7bn. In 1991 and 1992 when all three were in private hands, investment more than doubled - an increase significantly greater than the rise in prices, and right in the middle of recession. From 1983 to 1985 investment in these industries failed to cover capital consumption. It was zero in net terms. In 1991 and 1992 net investment totalled more than £4bn. Real investment in water has risen 50% since privatisation. Investment in telecommunications is at record levels with BT alone planning to invest £2.5bn. in 1994.

With hindsight, perhaps we should not be surprised by the scale of investment which private sector utilities are able to attract. After all, before socialism, the funding of infrastructure depended to a great extent on the marshalling of private finance. Private money was invested in our canals, ports, and railways. A doubling of the capacity of railway traffic during the last quarter of the nineteenth century was achieved by private finance. By the First World War, paid up capital in our railway companies was over £800m. - a remarkable £40bn. in today's money. Competition was intense; fortunes were lost as well as won. It helped to make and sustain this country's position as a world industrial leader. And then there was socialism. Nevertheless, the last seventy years of reliance on central provision was the exception and, like others around the world, we should look increasingly to the private sector to finance infrastructure.

## *Over-regulation and Monopoly*

Before 1979, successive governments attempted to grapple with the poor performance of nationalised industries through increasingly stringent controls. The cumulative effect was a forlorn attempt to set aside market pressures. Since 1979, the Government's privatisation, deregulation and competition policies have progressively replaced political markets with real ones, even in industries once considered to be beyond the reach of market pressures, like electricity supply, telecommunications and telecommunications.

By 1994, fifty major and many smaller companies had been privatised. About two-thirds of nationalised industries in the 1979 state sector, and close to a million jobs, have moved to the private sector. New opportunities are being identified all the time. British Coal, British Rail and the Atomic Energy Authority are three of the most recent major privatisations to have been completed. The status of the Post Office is under consideration, while the status of each of the Next Steps Agencies, which will soon contain three-quarters of the civil service, is to be reviewed every three years, with privatisation a preferred option. The benefits of privatisation are being sought across an ever wider field.

## **The Purposes of Privatisation**

Opponents of privatisation - and the Labour Party has resisted every single one - claim that the programme is driven by dogma. This was always nonsense. The privatisation programme has several aims: to promote excellence, principally through competition; to provide customers with value and choice; to widen and deepen share ownership, especially among those who work for the companies concerned and among small shareholders; to separate the state's role as regulator from the conflicting role of owner; and to liberate the taxpayer from providing permanent and rising subsidy to state-owned and managed activities.

## *Consumer Choice and Value*

Competition and deregulation are the principal policy instruments necessary to ensure that the benefits which should flow from privatisation actually do so. For competition and deregulation are the best ways to ensure that the goods and services consumers want are produced at prices they can afford.

Most privatised companies operate in commercial sectors subject to normal market forces. But the Government has brought the benefits of privatisation to markets previously deemed subject to 'natural monopolies' like telecommunications, gas, water and electricity. In these cases, to the extent that competition must be stimulated or simulated, market regulators have been established to encourage efficiency and innovation, and to ensure good service and value for the consumer. In fulfilment of its Citizen's Charter commitments, the Government has legislated to bring the powers of all the privatised utilities' regulators up to the level of the strongest.

## *Wider Share Ownership*

The promotion of wider share ownership - both among employees and the general public - is part of the Government's policy of extending the ownership of wealth more widely in the economy, giving ordinary people a direct stake in the success of British industry, and removing destructive distinctions between 'owners' and 'workers'.

Privatisations have contributed greatly to an increase in the number of private investors in the UK from 3m. in 1979 to 10m. now. In other words, whereas barely one in fourteen of the population owned shares in 1979, more than one in four does so today. Equally importantly, on average, 90% of eligible employees became shareholders in their companies on privatisation.

At first, some financial experts said that ordinary people would never take an interest in, or be able to understand, share ownership and, in any case, should not be encouraged to take risks with their money. Patronising attitudes like these were put in their place by the first British Telecom share sale, a sale so large that conventional wisdom deemed it unachievable. In fact, the sale was ten times subscribed, with more than two million people wanting shares.

As pioneers in privatisation, it was inevitable that the Government, the financial community and others would have much to learn about the methods and mechanics of the process. Two early privatisations were criticised, one for being overpriced (Britoil, which was affected by a slump in oil prices), the other for being underpriced (Amersham International, which had no market equivalent, making it especially hard to value). To overcome valuation and other difficulties, different types of sale have been used. A fixed-price sale is simple but vulnerable to outside events. Tender offers are more flexible but can deter small investors. In an effort to gain the best of both kinds of sales, the Conservatives devised a system in which small investors buy at a fixed price and institutions submit tenders. These mixed sales have proved highly successful.

Throughout the programme, the Conservatives have attached paramount importance to attracting employee and small shareholder participation, even at the expense of the financial institutions and overseas investors. The very smallest applications are invariably given highest priority. Typically, they get all the shares they ask for. As applications grow, the proportion awarded tends to shrink. Even more radically, the Government introduced cut-off points beyond which no shares were allocated at all. Another important innovation in favour of the small investor has been claw-back. In some privatisations, shares are allocated in advance for small investors, with the rest set aside for institutions. Claw-back increases the number of shares allocated to small investors if they subscribe in very large numbers - the increase to be taken from the institutions. Despite warnings that such methods might upset big subscribers so much that they would turn against the privatisation programme, the Government pressed ahead. There was no adverse reaction.

Those who said that ordinary citizens would take no interest in share ownership were repeatedly proved wrong, as were critics who said that most of the small investors who bought shares would sell them quickly, and the experts who thought that bonuses to reward long-term investment in privatised concerns would not catch on. Wrong, wrong, wrong. The privatisation programme has been one to which ordinary people have responded responsibly and enthusiastically.

### *Self-Determination and Competitiveness*

There was nothing very impressive about the management of the nationalised companies, but the real problems lay with the system they served, not with the people themselves. Indeed, one of the most encouraging features of privatisation is the way in which the workforces have responded to the challenge of coping with the pressures which are part and parcel of being in the private sector. Little wonder that studies show that one of the UK's attractions to inward investors is the flexibility of our workforce - a competitive advantage which, through its slavish devotion to the EC social chapter, the Labour Party seems determined to throw away.

Bus company and port managers, freight movers, bankers, insurers, parts distributors, truck and van makers, shipbuilders, IT facilities managers and caterers are among those who have come forward as a consequence of impending privatisation to seek the opportunity to take over their enterprises. Management and Employee Buy Outs are now a long-standing feature of the programme, and it is stronger for it. Several management teams have proved outstandingly successful, a few have fallen by the wayside, many have it all to play for. It reflects enormous credit on these former public sector management teams that they have shown such energy, daring and ambition.

Equally, many privatised companies are benefiting from becoming part of larger, more powerful companies. Govan, Jaguar, Royal Ordnance, Britoil, Rover, ICL, Short Brothers and Harland and Wolff are all examples. None could have enjoyed the same prospects so long as they remained isolated from reality through being tied to government.

Most frequently, however, privatised firms are floated into progressively less regulated and more open markets in which their futures will be shaped by their efforts - as they should be.

### *Separation of Interests*

The final reason to privatise is one of the most important - the separation of conflicting interests. It is vital to separate the role of owner, concerned for the cost of providing a service and for containing its investment requirements, from that of watchdog, concerned for standards and for the protection of consumers. Whenever government has permitted itself to play both these roles simultaneously it has become liable to conflicts of interest. Under state control, the transport, water and electricity supply industries all provided painful examples of successive governments becoming snared by one role at the expense of another. Typically government becomes slave to the owner-provider role, leaving the customer-watchdog role a poor second. The resulting

culture eventually breaks the connections between performance, profit and prospects. A government owner, ever ready to stand in the breach, punctures the pressure to perform. Privatisation, more than any other mechanism for making public bodies more responsive to their users, remakes the connections.

So long as the owner-provider role shaped government's behaviour, and so long as the taxpayer could be called upon to enable government to avoid painful but necessary decisions, a wide range of malevolent consequences was bound to follow. For example, the private sector parts of industries in which the principal supplier had been nationalised found themselves vulnerable to the actions of a protected and dominant state competitor. Also, so long as government continued as the employer of millions of public sector workers carrying out activities identical or similar to those undertaken in the private sector, public sector employment practices with their characteristic inflexibilities, were in danger of becoming the norm. The damage being done to supply-side efficiency and, thereby, to the UK's international competitiveness was obvious. So long as government remained employer of first resort, rot was certain to continue.

Fifteen years on, there is still much to do to improve the workings of the public sector labour market. Large parts of the public sector have yet to achieve the benefits of competition, and the need for increased efficiency and effectiveness from the £80bn. public sector payroll is greater than ever. But, by continuing to concentrate upon its core roles of watchdog and customer, and releasing itself from capture as owner-provider-employer, the Government has achieved a great deal. The privatisation programme has been the principal pathfinder.

### 3. THE BENEFITS

#### Customer Service, Value and Choice

No one should doubt that the main beneficiaries of the privatisation programme have been the customers of the privatised companies. Privatisation, coupled with competition and/or a demanding regulator, has repeatedly produced what customers crave - improved goods and services at lower prices.

By design, these benefits have been broadly distributed across the community, taking proper account of the social obligations of privatised companies in sectors like energy, telecommunications and transport. Quality of life considerations will continue to apply to forthcoming privatisations, for example in British Rail. Safety too has always been a prime factor shaping terms of transfer to the private sector.

Given the scope and frequency of the improvements of the goods and services provided by the privatised companies, it is sometimes easy to forget how they used to perform and to take for granted how their response to the challenge of privatisation has benefited us all. This section describes a few of the gains that ordinary citizens and businesses are now sharing. After the recent cuts in prices of phone calls, the telecommunications sector is a good place to start.

#### *Telecommunications: A Case Study in Competition*

Modern economies rely increasingly upon the efficiency and effectiveness of their telecommunications. In terms of international competitiveness, the quality of service and value for money provided to commerce and industry by the telecommunications sector now rival the importance of an efficient transport infrastructure. So, a decade after the privatisation and liberalisation of UK telecommunications, perhaps the greatest tribute to the health of this vital sector is the number of overseas companies choosing the UK as their European base and citing the standards and costs of telecommunications as a deciding factor. In 1984, you could direct dial 137 countries; the figure now exceeds two hundred.

The level of investment in the industry, some £25bn. since 1984, has been vital in achieving this pre-eminence. Moreover, that investment has *not* been financed through price increases. In fact, there has been a 35% real terms fall in BT's main prices since privatisation, including a 60% reduction in trunk call charges. Since last August, BT has been working to a formula which requires it to reduce prices by an average of 7.5% a year in real terms. As a result, more price cuts are coming. For example, in February, BT announced changes worth £500m. to customers, including the abolition of peak rate charges.

Since there was no reason for that monopoly of telecommunications to remain unchallenged, two years before the BT privatisation the Government announced that Mercury would be licensed to compete, and that the BT-Mercury duopoly would be reviewed during 1990-91 to examine the scope for reinforcing competition. Accordingly, in March 1991, the Government announced further measures to increase

competition, benefit consumers and lower prices. The main provisions were: the ending of the duopoly with all proposals for licences to offer fixed links to be considered; new class licences for provision of satellite and self-provided services; a tougher price cap on BT of RPI-6.25 (since tightened to RPI-7.5%); more freedom for mobile and cable operators; and International Simple Resale (ISR) to be permitted to certain companies. In 1987, the first ISR licence was issued. Over forty new telecoms licences have been issued since the review.

The change that greater and earlier liberalisation measures has forced upon BT has been dramatic, and has enabled the company not only to cope with increasing challenge in the UK, but also to win work overseas, so that BT now operates in over 30 countries. For example, BT has won a £350m. contract from the New South Wales government to link all NSW government departments and agencies with a voice, data and video network - Australia's largest private network.

At home, spurred by competition and by the regulator OFTEL, BT has cut prices, increased quality, sustained profitability and achieved record investment. As a result, the public no longer has to wait months for a state-issued telephone or search for a working 'phone box. Ten years ago the number of 'out of order' boxes exceeded a quarter of the total. It is now four in a hundred; an achievement all the more remarkable given that 30,000 additional payphones have been installed since privatisation. Now, only one in a thousand local calls fails to get through - with the old BT it was one in thirty. Also, disconnections because of debt are at their lowest since records began and, earlier this year, BT announced dramatic price cuts for telephone users in rural areas and remote parts of the UK.

It is not privatisation alone that has brought out the best in BT. Competition is playing a vital and increasing part, and Vodaphone and Mercury have proved magnificent competitors. For example, Mercury has invested £2bn. in the development of a digital network. Last September, the first Personal Communication Network was launched by Mercury One-2-One, a joint venture with US West. By then, Mercury had installed 1.4m. lines and was handling 12.6m. calls each day. Providing services to all but one of the UK's top 100 companies (no prizes for guessing) and with half a million domestic customers, Mercury now has 11.5% of the UK market - a real spur to continuing improved performance from BT. Like BT, Cable and Wireless, Mercury's parent company, has also developed its business overseas; for example, with a Finnish partner, C&W recently won a project worth more than £100m. to modernise Latvia's telecommunications. Overall since privatisation, Cable and Wireless profits have risen tenfold so that, in addition to privatisation proceeds of more than £1bn., the Exchequer received £300m. in corporation tax from the company in the ten years from 1982. In the first half of last year alone, profits rose to £99m. as new customers signed on to Mercury at a rate of more than forty thousand a month. Similarly, Vodaphone has become one of the 30 largest UK companies. It has over one million customers and gained has licences to operate in a dozen countries overseas.

Cable television companies have invested £1.7bn. and are providing a further challenge to BT in the residential market. Under licences already issued, the cable

companies will be able to reach two-thirds of homes and businesses in the UK. Most of this will be complete by the end of the decade and involve some £7bn. investment.

### *Electricity Supply - At the Flick of a Switch*

If there was an industry where they said that competition could not be created, and where governments had become mesmerised by the views of the industry itself, it was electricity supply. Regarding their creation as the envy of the world, the architects of what had become a centralised, inward-looking sector, were unlikely to inspire the radical changes required. Nonetheless, with domestic and industrial customers now feeling the benefit of the industry's break-up into more customer and competitor-responsive pieces, this complex and contentious privatisation is demonstrating its worth.

A principal aim of privatising electricity supply was to introduce competition progressively. For that to happen, the industry had to be restructured in favour of choice. Under the old structure, the Central Electricity Generating Board (CEGB) controlled the generation and transmission of electricity, owned and operated not only the national grid, but also the nuclear power stations and most other power plants in England and Wales. Local distribution was the responsibility of area electricity boards taking electricity from the grid and selling it mostly on the basis of published prices (tariffs), although some very large customers got special terms from the area boards or directly from the CEGB.

The Electricity Act 1989 restructured the industry by creating twelve Regional Electricity Companies (RECs) in place of the area boards, and by dividing the CEGB into three generating companies - Nuclear Electric, National Power and PowerGen - and a transmission company, National Grid, owned by the RECs. The intention was to create competition in power generation between these companies, existing alternatives (such as those in Scotland) and new entrants, such as companies investing in gas-fired stations. The monopoly power of the individual Regional Electricity Companies was also curtailed: large customers became able to enter into direct contracts with the REC or generating company of their choice. Customer interests were further protected by the creation of a regulator, the Office of Electricity Supply (OFFER) headed by the Director General of Electricity Supply (DGES).

Earlier this year, the Director General investigated wholesale, or 'pool', electricity prices and decided to reduce the influence of PowerGen and National Power. As a result, the DGES obtained undertakings from the companies designed to secure real terms reductions in pool prices of up to 7% and the sale by them within two years of 6000MW of generating capacity, the equivalent of around six large power stations. This was widely welcomed, especially by large users of electricity, most of whom had already enjoyed falls in real prices of 8-9% since privatisation. In the case of manufacturing industry, the latest DTI figures show that average electricity prices have fallen in real terms by nearly 7% in recent years.

Domestic consumers are also starting to benefit from lower prices. Overall, real terms domestic electricity prices have fallen by over 3% since privatisation, and by 7% in the last two years. The Labour and Liberal Democrat Parties predicted none of this:

*'... the idea that we will have an influx of power stations, all competing on the grid, is nonsense'* (Tony Blair, *Hansard*, col 683, 12 December 1988), or *'It strikes me that a minimum estimate of the cost of privatisation to the consumer in terms of price increases is 20 per cent'* (Alan Williams, *Hansard*, col 723, 12 December 1988), or *'(electricity) privatisation will result in higher prices for the whole population, and especially for those on low incomes'* (Malcolm Bruce, *Hansard*, col 585, 10 April 1989).

OFFER also enforces customer service standards. A customer receiving service below those standards is now entitled to compensation of £20-£100. For example, if electricity is cut off because of a fault in the company's distribution system, it should be reconnected within 24 hours. If not, the consumer is entitled to £40 and an extra £20 for each further 12-hour period without power. Also, if the company has to cut supply for maintenance work, at least two days notice must be given. Without such notice, again the customer is entitled to £20. Since privatisation, the RECs have improved customer service through:

- Increased compensation payments;
- Appointments kept within two-hour bands;
- Information and advice lines and extended office hours;
- Estimated bills reduced by as much as a third;
- Computerised and remote meter reading; and
- Discounts for customers paying by Direct Debit.

Finally, the privatisation of electricity supply has seen the number of disconnections drop dramatically. For example, in 1993 SEEBOARD and SWEB registered 83% and 95% falls respectively.

### *British Gas - The First Privatisation too Far*

*'There is no evidence that the Bill will improve efficiency, provide a better service, produce cheaper gas or, least of all, create competition'* (Stanley Orme, *Hansard*, col 780, 10 December 1985).

*'... 16 million British gas consumers can expect only one result - to pay increased gas prices, higher than the rate of inflation, for years to come'* (Malcolm Bruce, *Hansard*, col 793, 10 December 1985).

As the quotations above illustrate, the privatisation and subsequent regulation of British Gas provides an early example of what the Labour and the Liberal Democrat Parties repeatedly call 'a privatisation too far'. But the privatisation of British Gas has turned into a great success for customers. For the experience of gas consumers before and since privatisation could hardly be more different. In the early 1980s, domestic

gas prices rose by more than a third in real terms but, since privatisation in 1986, real terms prices have fallen below their January 1979 level.

In July 1992 real terms prices were cut by an average of 3%, and a further reduction of 2% took place that October. Inflation was running at about 4% so these reductions meant that, for the first time, gas prices were cut in cash terms. The combined reductions amount to a saving of £27 a year in gas bills to a family living in a three-bedroom semi-detached home with gas central heating. In 1993, gas prices were frozen in cash terms. Also, since privatisation, standing charges have fallen by more than a quarter in real terms, while standards of service have risen, and a scheme has been introduced to compensate consumers when standards are not met. One measure of improvement is the percentage of jobs completed in a single visit. Over the past five years, the success rate has increased from 60% to well over 70%, and it is still rising.

Moreover, disconnections are now at their lowest ever: 0.09% of all customers, half the number before privatisation. A code of practice provides that no pensioner household may be disconnected during winter. To reduce costs, improve accuracy and increase customer convenience, the new domestic electronic credit meter is replacing the old diaphragm meter, enabling British Gas to read meters using radio signals or telephone lines. In recognition of the quality of its services, British Gas was awarded a Charter Mark in 1993.

Competition has also brought major benefits for industrial gas users. Industrial customers who once had no alternative to British Gas are now able to choose from some 50 suppliers. These competing suppliers, many of whom are major oil companies, are well placed to stimulate efficiency in the supply of gas. As a result, industrial customers on average are paying 10% less for their gas.

In 1992, OFGAS referred British Gas to the Monopolies and Mergers Commission. Following the resulting report, the President of the Board of Trade, Michael Heseltine, decided not to require divestment by British Gas of its trading business, in the light of British Gas' announced intention to separate its trading and transportation businesses. Mr Heseltine also announced that British Gas' monopoly of supply to domestic customers should end in 1996, and that competition would be phased in over the following two years. The decision fulfils the Government's commitment to abolish British Gas' monopoly of the retail gas market and give small users the same freedom of choice as big firms. The first step was made in 1992 when the competition threshold was reduced from 25,000 to 2,500 therms per year. The equivalent monopoly in retail electricity is to be similarly reduced next year, and removed altogether in 1998. Thus the domestic markets for gas and electricity will be fully open to competition simultaneously, and a major milestone in privatisation-led deregulation will be reached.

## Company Self-Determination and Competitiveness

In UK industry today, we expect more self-determination. Not so long ago it was not like that. In the state industries in particular, the government-owned ports, car makers and mines were notoriously inefficient, unproductive and subsidy-dependent. As a whole, the sector was running up annual deficits of £2.5bn. at 1980 prices - the equivalent of well over £6bn. today. The state of the nationalised manufacturers was especially pitiful.

### *Nationalised Manufacturing - Back from the Brink*

*'Years of poor investment decisions, a lack of management, excessive centralisation, poor labour relations had left British Leyland the weakest of the large European car firms'*  
(Back from the Brink by Michael Edwardes).

This description of a nationalised British manufacturing company in 1977 could well have been applied to many others in state ownership at the time. Until 1979, successive governments had run to the rescue of lame and dead ducks alike. The Conservatives alone in 1979 recognised that the only way to save these companies was to rescue them from themselves. But it could not be done cheaply because most nationalised manufacturing companies depended upon taxpayers' generosity and therefore needed debts written off or relaunch aid in order to get them going again. From the Conservatives they got their fresh start, but none was allowed to take survival as a given right. Today, it is easy to take for granted the political courage required to make self-standing companies from industries that it was then fashionable to regard as having reached their collective 'sunset'.

Because of that courage, the idea that government should be a manufacturer now appears at best odd, at worst cowardly. Following Margaret Thatcher's victory in 1979, privatisation set the Conservatives apart from Labour which still maintains Clause IV in its constitution requiring: 'common ownership of the means of production, distribution and exchange' - a dogma practised today only in North Korea and Cuba. Despite Labour's opposition, over 20 manufacturing companies have been restored to the commercial sector. The effect on their confidence and competitiveness has been amazing:

— **British Steel** now takes under 5 hours to produce a tonne of liquid steel; it took 13 hours in 1979. As a result, the company has doubled its sales over the past decade to become one of our largest exporters. British industry is now able to buy steel at competitive prices, without having to subsidise it via taxation. Instead of losses of £1774m. in 1979/80, British Steel made profits of £733m. ten years later. Even in the difficult trading conditions of 1993 the company made a first half profit of £44m, the only major integrated EC steel producer to be in the black. Labour wanted none of it. For example, Donald Dewar described the privatisation as: *'a shoddy measure which promises destabilising uncertainty. It is totally irrelevant to the real interests of the industry, and it is based on dogma. The Labour Party is unequivocally, implacably opposed to it ...'* (Hansard, col 238, 23 February 1988).

- **Rover**, in collaboration with Honda, and now part of BMW, has adopted Japanese management and production methods. This has enabled the company to double production with the same size workforce and to gain a reputation for product innovation and quality that would have seemed impossible a decade ago. Red Robbo's basket case has come good.
- **British Aerospace**, privatised in 1981, has become one of Britain's main manufacturing groups and our largest exporter of manufactured goods. In 1992, turnover reached a record £10bn. Nearly two-thirds of this total was exported, including record breaking sales to the United States and to Saudi Arabia. Despite worldwide reductions in both defence and civil aerospace spending, productivity has risen more than 150% since privatisation.
- **Short Brothers** of Belfast has transformed a £50m. loss in the year before privatisation to a £28m. profit on a turnover which has almost doubled in five years despite recession in the defence and aerospace industries. Since its purchase by Bombardier in 1989, significant improvements in management practices, systems and industrial relations, plus investment in new facilities, products, markets and training, have contributed to this turn-around. As a result, the workforce has grown by some 2,000 to nearly 10,000 people
- Privatisation helped **Rolls-Royce** undertake major corporate restructuring. In 1989, for example, Rolls-Royce acquired NEI which, with its interests in industrial power, ideally complemented the existing aeroengine business, not least by making Rolls-Royce less vulnerable to the business cycles associated with aerospace. The company also established a joint venture with BMW for smaller aeroengines and set up Rolls-Royce & Partners Finance to provide new sources of finance for both aero and industrial power projects. As a result of such changes, Rolls Royce's share of the world aeroengine market has increased from 9% in 1987 to an impressive 25% in 1993.
- **Amersham International** has taken turnover and profits from under £50m. and £4m. respectively on privatisation in 1982 to close to £300m. and £40m. just over a decade later. Now, a global competitor in health science, the company has diversified geographically in terms of its services and products. Financially strong, better balanced and growing, success has enabled the company to increase its workforce to some 3,300, many of whom have invested in shares since privatisation.
- **Vospers Thornycroft**, privatised in 1985 by a management buy-out, joined the Stock Exchange three years later. Today, more than half of the workforce own shares or share options. Since privatisation:
  - productivity has improved by more than 50%;
  - the Group has moved from debt to having cash balances in excess of £50m. and a value of more than £200m;

- turnover and profits have improved consistently, and are now close to £200m. and £20m. respectively;
- orders have risen to an all-time high, now being in excess of £600m, with over 95% for export; and
- the shipyard further increased its reputation for quality when minehunter HMS QUORN became the Royal Navy's first ship with 'zero defects'.

UK manufacturing was not alone in being boosted by privatisation.

### *Privatised Service Providers - Serving up Success*

The privatised service providers include some of the most outstanding examples of performance transformed by privatisation. The National Freight Consortium, Sealink, British Airways, Associated British Ports, Unipart and Girobank all turned loss into profit. In order to do so, each one turned workplace problems into opportunities:

- **Associated British Ports** has restored self-respect as well as profitability to the 19 ports of the old British Transport Docks Board. The nationalised ports, handicapped by chaotic industrial relations and the activities of mutually antagonistic trade unions, had huge untapped potential. On privatisation, 90% of ABP's workforce bought shares, starting a profound change in employee perceptions. Collective bargaining with nine trade unions was replaced by individual contracts. The Government's abolition of the Dock Labour Scheme enabled ABP to bid farewell to infamous restrictive practices like 'bobbing', 'ghosting' and 'vetting', which had cost so much trade and so many jobs. According to ABP Chairman, Sir Keith Stuart: *'Abolition of the scheme dramatically cut ship turnaround times and led to a major expansion of ABP's investment programme'*.

These investments have been impressive, including: £50m. at Southampton; £79m. at Hull; £50m. at Grimsby and Immingham; and £40m. at Cardiff and Barry. Enterprising waterside developments have been a feature of ABP's success, and these are making an outstanding contribution to the regeneration of waterfront cities like Southampton and Cardiff. Restored to health, ABP is now well placed to take on continental competitors like Rotterdam and Hamburg.

- Legislation to privatise **British Airways** was approved by Parliament in 1980; the company was sold in 1987. During the interval, BA was transformed. The workforce was cut from nearly fifty-eight thousand to just over forty thousand as peripheral businesses were sold, loss-making routes were discontinued, productivity was increased, and standards were raised. Since then, employment has risen to forty-nine thousand as business has grown. These changes took place while the airline was preparing for take-off from the public sector - the halo effect of impending privatisation. To their great credit, the staff of the airline played their full part in the changes, and themselves became the welcoming, professional image of the 'World's Favourite Airline'.

Today the company is valued at over £4bn. and is the world's largest airline in terms of international scheduled services. As a result of its acquisitions and alliances, BA is now well-positioned for the long overdue global deregulation of civil aviation which the Government, free of the shackles of airline ownership, is working for. Other governments are less fortunate. For example, after trade union objections forced Air France to abandon its cost-cutting plan in 1993, the French Government agreed to inject up to a further £2.3bn. into an airline which already has debts of more than £4bn. and which ran up losses last year of £870m. Meanwhile BA made £320m. profit.

- Like BA, the **British Airports Authority (BAA)** was sold in 1987. In BAA's case, almost 2.5m. share applications were received and the sale brought in £1.2bn., creating the world's first privatised major airport group. BAA illustrates how post-privatisation success is built upon self-help rather than subsidy. Indeed such is the regulatory regime imposed upon BAA that most revenue comes not from airport operations but from ancillary services like retailing and car parking. Even here, BAA has not sought to exploit a captive market. Instead, BAA encourages competition. Household names brought in from the high street cannot charge more at BAA airports than elsewhere.

In fact, far from being captive, the general public as well as air travellers are flocking to BAA airports. Interviews involving 200,000 passengers a year assess satisfaction. Cleanliness, check-in and other performance measures are closely monitored. By making its airports attractive BAA has acquired new opportunities. For example, it is responsible for retailing at Pittsburgh Airport and has been invited to participate in developments at Moscow, Macau and Hong Kong. At home, traffic has grown and, with the number of passengers per employee increasing by more than a quarter last year, profits reached a record £285m. Much of this is being reinvested. For example, the Heathrow Express link to Paddington which the company is funding with British Rail will benefit 6m. passengers a year.

The privatisations in financial services resulted from the belief of both the Government and the managements concerned that the organisations would be better able to realise their potential by being transferred to the private sector.

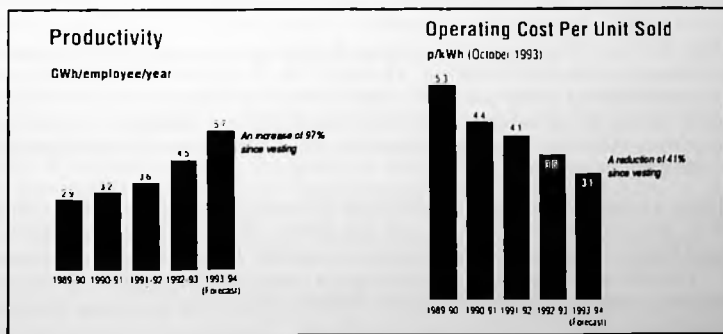
So, the idea of turning the **Trustee Savings Bank (TSB)** into a limited company and floating it on the Stock Exchange originated with the Bank. Similarly, Post Office management agreed with the Government that taking **Girobank** out of the public sector was the best way to give it the freedom to trade on equal terms in a highly competitive market. And sale of the **Insurance Services Group (ISG)** of the Export Credits Guarantee Department followed a report by a former ECGD official which concluded that the Single European Market would expose ISG to foreign competition without the Group being able to retaliate so long as it remained state-controlled. The development since privatisation of Girobank is perhaps the most instructive of the three transfers.

- **Girobank** was set up by the Labour Government in 1968 as the banking arm of the Post Office. By the late 1980s, it had become Britain's sixth largest bank in terms of personal current accounts, with £2.2bn. of assets, 2m. account-holders, valuable contracts to process social security payments, and the 20,000 outlets of the Post Office as its branch network. It had a corporate lending and leasing business, a mortgage division and had pioneered mail and telephone banking. Girobank was potentially a highly successful business, but so long as it remained in the public sector it would remain starved of investment. The difficulty was removed when Girobank was sold to the Alliance and Leicester Building Society for £112m. Concentrating on corporate deposit-taking and money transmission, the bank now handles one pound in every three taken through retail tills in the UK. Improved financial discipline and management increased profits from £21.7m. in 1989, the year before the sale, to £75.2m. in 1993 - quite an achievement.

### *The Utilities: Power (and Water) to the Regions*

Privatisation has also required the utilities to become very much more efficient and enterprising:

- Improved efficiency resulted in staff levels in the **Electricity Supply Industry** falling by 16% between vesting in 1990 and 1992/93. **RECs'** combined staffing levels fell from 83,529 in 1985/86 to 77,329 in 1992/93. Productivity, expressed as the number of units of electricity sold per employee, rose by about a fifth. This was helped by a sharp rise in investment by the industry. From 1988/89 to 1992/93 the real terms increase was 80%. Capital expenditure rose from £200m. in 1985/86 to £443m. in 1992/93.
- The productivity gains achieved by the generating companies **National Power** and **PowerGen** have also been considerable, with a combined head count reduction of over 30% since 1989. These, in turn, have stimulated impressive productivity improvements by the nuclear generators. Indeed, **Nuclear Electric** and **Scottish Nuclear** provide powerful examples of the effect on performance of market pressure and the desire to be privatised. The figures below show the results achieved by the larger of the two, Nuclear Electric.



Meanwhile, Scottish Nuclear's two AGR stations are being run with increasing efficiency. Output per employee has already increased by 20% since vesting day in 1990, and there are plans to achieve a 90% improvement by 1998/9. Investment at the stations is expected to lead to record output in 1994/5 at a level 30% higher than at vesting.

- The performance of **British Gas** has also been transformed since privatisation, with sustained investment playing a prominent part as the table below shows:

<i>Year</i>	<i>£m.</i>
1984/85	1174
1985/86	952
1986/87	734 (privatisation year)
1987/88	1249
1988/89	1689
1989/90	1536
1990/91	2691
1991	2255 (calendar year)
1992	2676
1993	2005

Valued at less than £8bn. in 1986, the company's track record and prospects have created a market value of close to £14bn. today. Productivity improvements have played a major part in securing this increase; in 1980, the British Gas Corporation had 128 customers per employee, now British Gas has over two hundred. As a result of its improved efficiency and the experience it has gained developing its business overseas, British Gas is now poised to take advantage of the liberalisation of the European gas market which the Government is seeking to bring about.

One of the unsung gains from privatisation is best illustrated by the **Regional Water Companies** - namely, the dispersal away from London of decision-making, responsibility and accountability. Other privatisations such as those involving the Regional Electricity Companies, British Shipbuilders, National Bus Company, and the sale of the NEB shareholdings contributed to the dispersal of power. The privatisations of British Rail and British Coal into regionally-based companies will take further the decentralisation of decision-making. However, the Regional Water Companies, with their capitalisation of close to £13bn., their £28bn. catch-up investment programmes and their race with rising environmental standards, best illustrate the reconnection which privatisations are achieving between public service-providing companies and the local communities they serve.

Closely monitored by the National Rivers Authority, the Drinking Water Inspectorate, H.M. Inspectorate of Pollution and the Office of Water Services (OFWAT), the Regional Water Companies expect to be accountable for any failures to achieve their goals. Equally, their successes can become a source of local pride as the industry secures the investment needed to restore Britain's water and sewerage infrastructure.

Under state ownership, the industry failed for generations to receive the funds necessary to meet rising environmental and public health expectations. Mostly unseen, underground, it was an industry whose needs were easy to ignore compared with those able to make more politically visible claims on public spending. Successive governments failed the industry: none more so than the last Labour Government, for between 1974/75 and 1978/79 investment fell by 21%. Under the Conservatives, between 1979/80 and 1983/89, investment rose by more than half. Labour's lack of investment in the industry failed to shame its spokesmen into support for the measures needed for modernisation. Instead, they resorted to scare-mongering:

*'... if this squalid Bill proceeds, domestic water charges will, effectively, at least have doubled as a result of Government policies and almost certainly rise much higher than that'* (Jack Cunningham, *Hansard*, col 347, 7 December 1988).

Ignoring the Jeremiahs, the Conservatives drove through the 1989 Water Act providing for the transfer to the private sector of the water and sewerage companies. The Government injected over £1bn. into the industry, wrote off £4.4bn. of debt and set the initial price cap at RPI + 5%. Of course, it was recognised that increased water charges would be unpopular, but the Government was determined that the value of this precious resource should be properly appreciated and the investment demanded by rising environmental and health standards should be secured for the well-being of the nation.

At last, the industry could invest. As a result, huge works are under way to construct London's new 'ring main' system of water supply. The consistency of standards achieved by sewage works, and in the quality of drinking water, have already risen in response to new investment. Now, 90% of our rivers, canals and estuaries are of good or fair quality compared with 75% for the EC as a whole. So strong is British industry becoming in the technologies associated with water treatment that it is now a major contributor to a balance of payments surplus of £234m. a year in pollution control equipment. According to a recent independent report produced by consultants for the Departments of the Environment and Trade and Industry: *'The view that the UK is unsuccessful in overseas markets for environmental equipment is a myth'*. North America accounts for nearly half of such exports, with close to a third going to Europe.

### **Wider Share Ownership and Employee Involvement**

The Government's objective of achieving much wider employee ownership of shares in their companies was always intended to contribute to profound changes of attitudes and relationships at the workplace. In most privatisations, therefore, a substantial proportion of shares has been set aside on favourable terms for employees. For example, the purchase of shares by employees has often been matched by an equal number of free shares. One of the first workforces to benefit was at **British Aerospace** where, in 1981, 1,000 British Aerospace shares were sold. This represented nearly half of the shareholding, of which 3.2% went to British Aerospace employees on special terms; 89% of the workforce bought a stake in their company.

In 1984, when **BT** was set free, more than two million applied for BT shares, together with almost a quarter of a million of the company's employees and pensioners. A staggering 95% of the workforce bought a stake in the company. When small shareholders were offered the choice between bonus shares and bonus calls, they chose shares by two to one. With the BT privatisation, the shareholding society took off.

With hindsight, BT's successful flotation should not have been such a surprise. By 1984, two tranches of **Cable and Wireless** shares had already been sold. Then a year after the BT launch, the final tranche was sold with the offer 200% subscribed, despite its being the world's second largest share offer. Applications were received from 220,000 people. Nearly a decade later, the company still has around 150,000 shareholders, many of whom are the 99% of employees who benefited from the special terms made available to them.

Employee participation was a major feature of the sale of **British Gas** where 38m. shares were set aside for the workforce, with each employee being entitled to 52 free shares plus a bonus of £2 worth for every year of service. As a result, 85,000 employees - 99% of the total - became shareholders. Also in the British Gas privatisation, small investors received free vouchers up to a value of £250 for use against gas bills or a bonus of up to 500 shares in respect of shares held continuously for three years. The flotation generated an enormous response. The offer was five times subscribed with 5m. people applying. Only applications for the first 400 shares could be met in full.

**The Regional Electricity Companies** were floated separately, with the public applying for whichever shares they liked. Employees were offered free shares worth £140 plus about £2 worth for each year of continuous service. Employees also received two free shares for each one purchased up to £220 worth of shares purchased.

When the **Regional Water Companies** were offered for sale, 2.7m. share applications were received. 37,500 of the companies' employees (86%) became shareholders. A privatisation fought all the way by all of the Opposition parties proved an unqualified success.

The strong connection between employee share ownership and productive change in employees' relationships with their companies is best illustrated by some of the smaller privatisations.

Before privatisation, **NFC** was a mix of haulage, parcels, truck rental, removals and storage businesses - and it was loss-making. For example, National Carriers, the British Rail haulage operation added to NFC at its formation, had the unusual distinction of losing £26m. on a turnover of the same amount. During the 1970s, NFC cut its workforce from more than 65,000 to less than 35,000 but remained effectively bankrupt. Although its plight was unlikely to improve in state hands, NFC's trade unions were determined to keep it there. By 1979, NFC was still losing money, mainly in its parcels division and in Europe. The company was in such a state that its only hope was to be sold to those best placed to save it, its employees.

Employees meant not only managers, but drivers, warehousemen, pensioners and their families. In the event, 36% of the workforce bought 82.5% of the business, ignoring experts who said that it would 'end in tears'. A decade later, 28,000 NFC employees, more than 85% of the workforce, are shareholders in a company which has operations in over twenty countries and is now one of the top 100 companies listed on the London Stock Exchange. 1993 pre-tax profits were £105m, much of which was earned abroad. NFC also reports workforce involvement, and has employee profit plans in every major location of operation. A typical episode of the NFC story came shortly after the buy-out: charts tracking changes in the share price were posted in every depot and the employees became so concerned about profitability that they started to monitor spending and resource consumption locally seeking to eliminate waste of any kind. With such stewardship, NFC was bound to succeed.

In similar vein, the **Unipart Group of Companies (UGC)** started as the Parts Division of British Leyland. By 1980, BL had consumed billions of pounds of taxpayer subsidy but remained in perpetual crisis. Bailing out from bailing out BL, the Government decided to return it bit by bit to the private sector. By 1987, UGC had begun its turn-round. To complete what they had started, UGC management decided to lead the company into the private sector by means of a buy-out. All of the company's employees were invited to a four-hour theatrical show - a privatisation prospectus put to music. This unusual approach to explaining the risks and opportunities associated with becoming employee shareholders was a great success. Every employee was invited to buy shares and most did. Twelve per cent of the equity was set aside for employees with ten per cent available to the sixty managers who had got Unipart on to its feet. Now, nearly half of the company is owned by its workforce.

Sound relationships remain at the heart of Unipart's turn-round: over three hundred teams and individuals have won company awards for going beyond the call of duty to deliver outstanding customer service; absence from work, a sure measure of motivation and morale, is under one percent; and in the year after union recognition was ended, productivity rose nearly 40%. The consequences for the Group have been spectacular. At privatisation, the interval from request to delivery of parts anywhere in the UK was around ten days. Now, it is between 48 and 14 hours. Also, the Group's manufacturing division - once a heavy loss-maker - has been so transformed that one of its factories has been voted 'Best Engineering Factory in Britain' and 'Britain's Best Factory'. The results are there to admire and are being built upon. In 1992, the Company achieved record profits despite the record losses of the world motor industry. 1993 is expected to result in new records: management, employees, customers in Unipartnership.

## **The Taxpayer: Returns and Relief**

As shown in earlier sections, throughout the privatisation programme, Labour front-bench spokesmen made Cassandra appear an optimist by comparison. Like the princess, they were not believed. Unlike her, they were dead wrong:

*'We believe that privatising British Airways is a bad deal for the airline and a bad deal for the British taxpayer'* (John Smith, *Hansard*, col 53, 19 November 1979).

*'It (British Airways) will be the pantomime horse of capitalism if it is anything at all'* (Donald Dewar, *Hansard*, col 125, 19 November 1979).

In fact, despite the effects of the recent recession and of the Gulf War, British Airways has run up profits over the past ten years of over £2.7bn. while its 'flagship' European competitors run à la Smith and Dewar have been heavy loss-makers.

**Associated British Ports** provides another spectacular example of Labour predicting the worst while the Government encouraged the best. Since privatisation in 1983, productivity has trebled. From 1984 onwards, profitability was rebuilt so that, by 1988, ABP's profits were such that the company paid more to the Treasury in corporation tax than in the previous five years combined. Overall, profits rose from £5m. in 1983 to £62m. a decade later. The company's value meanwhile increased from less than £50m. to more than £1bn. The £14m. of tax paid by the company to the Exchequer last year alone shows where the taxpayer's interest lies as between public and private ownership.

**Bus services** provide a telling example of Labour's inability to release customers from monopolistic public sector provision. The history of deregulating and privatising the buses also shows how wedded Labour remains to the massive subsidy of its public sector union supporters.

Prior to deregulation and privatisation, bus services had a long history of decline. Bus share of transport fell from 39% in 1955 to 8% in 1985. Costs and fares increased, and local authority subsidy rose in real terms from £10m. in 1972 to over £500m. in 1982, a thirteenfold increase in real terms. Also, 1970s Britain had few long-distance coach services, and none that were low-cost. Curiously, this was because a 1928 Royal Commission had led to the issue of licences for new services only if the operator could prove public need. Inevitably, these were opposed by existing suppliers arguing that demand was met. So, with monopoly services delivered by highly unionised direct labour, the buses became inefficient, unreliable and unprofitable. Subsidy dependence, started by Harold Wilson, further insulated bus companies, and the numbers travelling with them continued to fall.

The Transport Act of 1980 abolished price control and licensing restrictions on long-distance express, excursion and tour services. The 1983 Act obliged councils to consider bids from private operators. The Act of 1985 deregulated services outside London, and paved the way for privatisation of the two-thirds of buses owned by councils or the state. It also subjected the industry to normal competition policy, and erased artificial barriers between taxis, minibuses and buses so that the variety of services could increase. Now, services must register with a Traffic Commissioner who will accept valid registrations, his power being limited to acting against those who fail to run services properly.

To stimulate competition, the 72 subsidiaries of the **National Bus Company** and the 10 subsidiaries of **Scottish Bus Group** were privatised separately. In addition, all local authority bus operations were formed into freestanding companies and required to work in the same commercial environment as other operators. The Government is encouraging voluntary sale of those companies still owned by local authorities; around half of the original fifty-four companies have been sold, with more sales to come. Although bus deregulation has yet to arrive throughout London, the Government is committed to **London Buses** already has to compete to run services, and its privatisation is a key component of the Government's plans. London Buses subsidiary, Westlink, was sold in January. According to Labour, the effect of these initiatives should have been catastrophic:

*'The Bill will be a disaster for the transport industry. It is not based on careful thought, and it will not improve the lot of the bus passenger. The system was evolved because the Government had but one aim in mind - the desire to destroy the entire bus service and to save money'* (Gwyneth Dunwoody, *Hansard*, col 1096, 22 May 1985).

In reality, deregulating and privatising bus services has increased bus mileage by more than a fifth; reduced operating costs by over a third; and more than halved public subsidy in real terms.

Opponents of privatisation often criticise the investment and rationalisation needed to prepare publicly-owned companies for privatisation. Cynically, they regard putting the companies on to a sound footing as 'fattening' for market. Invariably, such critics choose to forget that neither the public nor professional fund-managers would have invested in nationalised companies permitted to remain in their uncompetitive 1970s condition. In the event, the management action and refinancing which the Government has undertaken to set the companies on a sensible course invariably enabled them to attract sufficient funds to be able to trade again as going concerns.

On the other hand, providing the companies with a sound start could never guarantee long-term success and, inevitably, the Labour Party depicts distressed privatised companies as privatisation failures. Of course, such criticism ignores the reality that, like any other companies, privatised ones cannot expect to be shielded from intensifying competition or their own mistakes. Some are affected by the difficulties their sectors face. For example, world over-capacity in shipbuilding has resulted in severe difficulties for some of the yards privatised from British Shipbuilders, such as Cammell Laird and Swan Hunter. But the permanent outpouring of public money into loss-makers cannot be the answer. Even in these most difficult cases, reality has been faced.

Similarly, sorting out the miserable legacy created by Labour's nationalisation of steel was bound to cause intense local pain for the communities concerned. Squaring up to the challenge, the Government required British Steel to prepare for its return to private ownership by raising its productivity massively and eliminating its dependence upon the taxpayer. The immediate social costs of this adjustment were bound to be high. So the Government ensured that generous funding was provided to commu-

nities like Corby and Consett to enable them to rebuild and diversify their local economies as, indeed, to their great credit they largely have. Before these changes the degree of dependence on the taxpayer had become remarkable. In the decade to 1985 the company cost taxpayers £7,859m. or a colossal £16bn. in today's money. Since 1986, there have been no subsidies. Losses of £1.8bn. in 1979/80 were converted to profits of £733m. ten years later. After weathering the recession, not least by rusing its exports of finished steel from 4m. tonnes in 1979 to 6.4m. tonnes in 1990, the company has now returned solidly into profit.

Whenever industrial problems arise, Labour shows the superficiality of its commitment to market-based solutions. Invariably, they call for hand-outs and cop-outs. The problems which **Leyland Daf** experienced only last year showed the Labour Party still afraid of the market-place, and as happy as ever to spend other people's money at the first sight of a problem. As concern for the company grew, Labour could think only of castigating the Government for not following the examples of the Dutch and Flemish governments' gifts of over £100m. to the firm. In the event, hundreds more lost their jobs in Belgium and the Netherlands than in the UK. The commercial approach adopted here saved over half of the jobs involved. Now, operating as separate companies, Leyland Vans and Leyland Trucks have started to recover.

Indeed, the management buy-out of the truck business has started a new chapter in its history. With an advanced assembly plant and a workforce applying industry-leading working practices, Leyland Trucks now offers the lowest cost commercial vehicle assembly in Europe. Restored by private funding to UK ownership, the company employs nearly 700 people and expects a turnover of £140m. in its first year.

Similar progress is under way at Leyland Daf Vans, now known as LDV, where a buy-out secured £45m. of funding support, including venture capital, DTI assistance of £8m., and £4m. from the Birmingham Heartlands Development Corporation. Already, LDV is exporting to Europe and expects to do increased business there. The company recently won orders from Thames Water, Newcastle City Council and Parcel Force. The Birmingham plant now provides just under a thousand jobs and is recruiting again. A year on from the buy-out, the company announced profits of £8.6m. and increased output of 20%. As at Leyland Trucks, shop floor improvements have been dramatic. Bureaucracy has been cut down, and decision-making speeded up. As self-determining companies, Leyland Vans and Trucks are on the road to recovery.

While Conservatives require loss-makers to face their difficulties, Labour has no plans to do so. According to Trade and Industry spokesman, Robin Cook, a Labour government would renationalise coal mining. Elsewhere, he refuses to learn from the past. According to Mr Cook: *'If you look back at the 1960s and 1970s, we were not that bad at picking winners'*. Really?

What the record actually shows is that, of the hundred or so investments made by Tony Benn's National Enterprise Board, thirty-five went into receivership, and a further thirty-eight resulted in a loss on disposal. Only twenty-seven investments were profitable. Some winners! Happily, as this pamphlet demonstrates, the Conservatives'

record has been very different. The table opposite summarises the record of the 'Top Ten' privatisations. Overall, the turn-round in performance of the privatised industries has transformed a 1979 loss to the taxpayer of £50m. per week into a £60m. per week gain in 1994 - a turn-round of more than £10bn. a year at current prices.

### **Government Separation of Roles**

Government involvement with the nationalised industries produced a conflict between the roles of owner, employer and investor and those of consumer champion, standard setter and standards enforcer. Government as owner/employer only too readily became the poodle of the public sector provider. By enabling government to concentrate upon its 'core' roles, privatisation has forced politicians, every bit as much as the companies themselves, to take customer interests more seriously.

Customers require markets to work in their favour and, where there are market imperfections, they need to be championed by a capable independent market regulator. One of the successes of privatisation has been the progress that regulators such as OFTEL, OFGAS and OFFER have made in tackling the problems arising from market imperfections and in progressively eroding the imperfections themselves.

The Government put the National Rivers Authority on to its present footing specifically to ensure that demanding environmental and health standards were enforced by a regulator free from conflicts of interest. Similarly, OFWAT is there, among other things, to ensure that the price of water and sewerage treatment is no higher than is justified by the Water Companies' investment programmes. In fact, fully two thirds of the Companies' profits are reinvested.

The colourful history of OFGAS' relationship with British Gas, and the steps taken by the President of the Board of Trade to open the UK gas market, show that a government which no longer owns an industry has an extra degree of freedom in its relations with it. And, of course, the point is not to repress an industry, as the freedoms conferred upon the bus industry have shown - more bus miles, more services, lower costs.

Similarly, OFFER's recent curbing of National Power's and PowerGen's influence over wholesale electricity prices demonstrated the willingness of an independent well-informed regulator to protect the consumer. All these examples show how the various regulators have been opening markets to competition, in contrast to some of their predecessors like the old-style Traffic Commissioners.

Cross-Channel services provide another striking example of the gains available when government acts as helmsman rather than oarsman. In 1979, the Channel Tunnel was not seriously discussed and British Rail's Sealink provided a ferry service that made crossing the English Channel an extremely expensive and unreliable undertaking. Fifteen years later, we witness the opening of a privately-funded tunnel, and Cross-Channel travellers are already taking advantage of the intense competition which the sale of Sealink and other measures to open up this market have created among ferry operators. As Stena, P&O and others have shown, the introduction of bigger, cleaner,

## THE TOP TEN PRIVATISATION - THEN AND NOW

Year of Privatisation	Net Sale Proceeds £m	Market Cap £m (3/94)	Workforce at Privatisation	Workforce Latest Avail.	T/O £m at Privatisation	T/O £m Latest Avail.	Profits £m at Privatisation	Profits £m Latest Avail.
BT - 1984	14,300	24,875	249,000	153,000	6,830	13,242	987	1,972
BG - 1986	7,861	13,048	90,000	74,000	7,687	10,400	782	533
BP - 1981 - 1987	6,278	20,598	126,000	72,000	28,328	34,950	1,308	1,125
RWCs - 1989	5,239	12,524	41,000	51,000	3,411	5,244	1,118	1,615
RECs - 1990	5,183	13,786	389,000	82,000	14,381	16,825	1,023	2,207
ScotE - 1991	3,391	4,749	13,000	11,000	1,808	2,203	205	443
National Power & PowerGen - 1991	2,852	10,359	25,000	16,000	4,378	4,348	479	580
					2,651	3,188	301	425
BS - 1988	2,453	2,795	54,000	40,000	4,116	4,303	419	(149)
RR - 1987	1,319	2,272	42,000	34,000	2,059	3,562	156	(184)
BAA - 1987	1,183	5,058	8,000	9,000	439	952	90	285
<b>Totals</b>	<b>50,060</b>	<b>97,540</b>	<b>737,000</b>	<b>542,000</b>	<b>76,088</b>	<b>99,217</b>	<b>6,868</b>	<b>8,852</b>

1. 240,000 in 1979
2. 101,000 in 1979
3. 186,000 in 1979
4. £44m. profit in first half of 1993/4
5. 57,000 in 1979
6. Excludes acquisitions (e.g. NEI)

### Abbreviations

BG: British Gas  
 RWCs: Regional Water Companies  
 RECs: Regional Electricity Companies  
 ScotE: Scottish Electricity  
 BS: British Steel  
 RR: Rolls Royce

more reliable boats offering a wider range of entertainments, has encouraged travellers to regard the ferry crossing as an integral part of their holidays. As a result of these initiatives, no longer is it assumed that the Tunnel spells the end for the ferry operator. As ever, the key to ensuring the benefits of such competition was for government to move away from direct ownership and control, and to encourage the market-place to work out solutions.

The benefits available from separating ownership from the other roles of government have been recognised by the Conservatives for at least a generation. In 1971 for example, Lord Rothschild reported on improving value for money from government involvement in Research and Development, and warned about the conflicts of interest that arise when government is both the customer for R&D and, through its R&D establishments, the provider. In 1993, his call was answered in William Waldegrave's White Paper, 'Realising Our Potential' which, among other things, set in hand an Efficiency Unit scrutiny of this area. Already, the Department of Trade and Industry has announced its intention to privatise its laboratories as soon as they achieve the necessary viability.

A frequent tactic of opponents of privatisation has been to try to create concern about the consequences of loss of direct governmental control over activities being considered for transfer to the private sector. Sometimes, the spectre of foreign involvement with privatised companies is used to discourage change. While the Conservatives have taken care, through the use of 'golden' or 'special' shares for example, to protect the national interest, we have avoided xenophobic responses to such pressures. Critically, the Government has recognised the international nature of the markets in which most of the privatised companies operate, by taking a generally liberal attitude towards associations with overseas companies. Of course, this is entirely consistent with its stance on overseas investment into this country which has been such a resounding success in its own right.

Overseas associations, including ownership, have been a major source of strength for privatised companies. For example, becoming part of the Ford Motor Company has been a source of stability for Jaguar, while joining Fujitsu has helped ICL to become Europe's most consistently profitable computer company. Rover benefited greatly from its co-operation with Honda and can be expected to thrive as part of BMW. Norwegian ownership of Govan Shipyard has restored the yard to profit after thirty years' red ink. British Aerospace, Rolls Royce, British Airways, BT, Harland and Wolff and Short Brothers have all recognised the global nature of their industries and have formed international relationships of different kinds to further their interests.

Even where there is some truth in the 'national interest' argument, the Conservatives have shown that it is foolish to assume that state ownership is the only remedy and to forget that government can stand by an industry without owning it, either through provisions in the privatisation legislation or simply by using normal government powers. Amersham International amply demonstrates the point.

When Amersham was privatised, it was the only company in the world supplying certain radioactive medical and industrial products, and there was a legitimate concern about the possibility of immediate, possibly hostile, takeover. The Government therefore stipulated that the company could not be taken over for at least five years. The Government then created a 'special share' in Amersham, giving it the power to prevent any person or group from acquiring more than 15% of the company - as well as the right to veto any material disposal of assets or voluntary closure. This approach shows how privatisation enables government to move to an eyes-for-nails off relationship with industry in which the watchdog role dominates.

## 4. THE FUTURE

After the successes of the past fifteen years, it would be easy to assume that the privatisation programme is nearly complete. It would also be wrong. An enormous amount remains to be done to extend the programme and the principles underpinning it across the public sector. This is now happening under the banner of 'Competing for Quality' which embraces a range of initiatives, including the Citizen's Charter and the contractorisation of public service delivery.

Most visibly, the remaining nationalised industries such as British Rail, British Coal and the Atomic Energy Authority are all at different stages of preparation or assessment for privatisation.

**British Rail** and **British Coal** are now close to being ready for transfer. A number of BR subsidiaries, such as Sealink and British Rail Engineering Limited, were privatised in the 1980s. With the passing of the Railways Act last year, the way to privatisation of the business is clear and the process of reorganisation to reflect the new structure of the industry is well under way.

The Franchising Director has been appointed to award passenger service franchises and ensure that franchisees meet defined standards and service specifications, including socially necessary services which continue to receive Government support. The sale of franchises starts next year. British Rail's freight business has been split into three regionally-based companies for transfer to the private sector. Open access now allows new firms, or perhaps freight customers, to come on to the network for the first time.

A Rail Regulator has been appointed to oversee access and charging, and to promote competition and the interests of consumers. Railtrack, which stays in the public sector for the time being, runs and maintains railway infrastructure. Investment will be funded largely from charges to operators.

The Government is also encouraging greater use of the railway for freight traffic with an expanded system of capital grants for new freight facilities, a new revenue grant towards track costs (both grants tied to environmental benefits), and by allowing 44 tonne lorries for the road leg of combined transport, when the trunk haul is by rail.

In keeping with the Government's aim of ensuring the largest economically viable coal industry which the market can support in the longer term, **British Coal** will be offered for sale in five regionally-based packages. There have been a number of expressions of interest in these, including from people working in the industry. Privatisation is expected to be completed early next year. Already, a number of pits closed as uneconomic in the public sector are being reopened as private sector enterprises.

The future of the Post Office has been under consideration. The Government is determined to enable the Post Office to compete in an increasingly international market while maintaining a nationwide letter service with delivery to every address

in the United Kingdom, within a uniform pricing structure and via a nationwide network of post offices.

The Government also intends to proceed as soon as possible with a review of the future of the nuclear power industry.

Other privatisations remain a distinct possibility in due course with the Horserace Totalisator Board among the potential candidates. The National Lottery which, in former times, government would probably have run as well as regulated, will be managed by the private sector.

So, with the nationalised industries returned or returning to the private sector, the thrust of privatisation and related policies like deregulation, contracting out and the promotion of competition, is being directed increasingly towards the rest of the public sector. New pathways to privatisation continue to be found. Progressing from being managed by private sector contractors to being privatised may prove to be one useful model. For example, in 1987 the Ministry of Defence ran competitions to manage Devonport and Rosyth Royal Dockyards. Despite reductions in the Royal Navy's requirements and competition from commercial ship repairers and warship builders, the consortia appointed to run the yards claim regular 6-8% annual productivity gains. MOD is now to offer the yards for sale - privatisation proving irresistible to a Department determined to achieve value.

Beyond privatisation, there is much to be done to raise standards of service and increase competitiveness in the public sector. Under the Citizen's Charter, the Government has initiated a wide-ranging programme of reforms bringing with them a new emphasis on responsiveness to the customer. With all the main public services now covered by 39 individual Charters, real improvements in services are being delivered.

Better value for money and improved standards are also being secured through the 'Competing for Quality' initiative. It has demonstrated conclusively the gains which can be achieved by contracting out or market testing Central Government services. William Waldegrave, the Minister responsible for the initiative, has taken the programme from small beginnings, where only £25m. worth of activity was exposed to competition in a year, to a point where £1.1bn. worth of activities were tested in the 21-month period to 31 December 1993. Average savings have been over 20%.

In local government too, the competitive tendering of services is leading to improvements in standards and in value for money across a range of functions formerly assumed to be for council employees alone to provide. One of the leaders in this field, Conservative-controlled Wandsworth, has carried out some sixty tendering exercises, from computer services to gully emptying. The average saving has been 23%, amounting to over £75m. and Council Tax bills in Wandsworth are £120 less than they otherwise would have been. Standards have been deliberately enhanced for example, in refuse collection, where complaints have dropped to practically zero and street sweeping, where standards have risen by 30%.

Next Steps Agencies are in the forefront of delivering the Citizen's Charter. Currently, 60% of all civil servants now work in Agencies. As each Agency is periodically reviewed to determine how its services can best be delivered, private companies are given the opportunity to come forward with ideas and suggestions. As part of this process some Agencies are already preparing for the private sector.

Overseas governments are taking a keen interest in Conservative reforms of the public sector, and are now adopting Citizen's Charter principles to get the best from their services. David Osborne, co-author of the influential *Reinventing Government* has said that 'We [the United States] are following in their footsteps' (*Business Week*, 24 January 1994). Indeed, it has been said that 'Statecraft is becoming a major British export, just as privatisation was in the 1980s' (*The Times*, Editorial 26 October 1993). Again, it is the Conservative Party which has the new ideas, setting the agenda in the public sector.

In contrast, Labour is incapable of reforming public services and remains unsure whether to cling to its past or, as with its dabbling in the private finance initiative, to try to copy the Conservatives. While Labour has faltered, the world has moved on. Internationally as well as at home, the argument is won, and debate now centres less on the merits of private ownership and more on achieving effective regulation and competition. The political contest over privatisation has ended because the policy has worked. Facts have overtaken theory. Clause IV **R.I.P.**

# SEMA GROUP: A WIDER VIEW, A LOCAL PERSPECTIVE AND CONSISTENT GROWTH IN A FREE MARKET



## *The global approach to information technology*

When it comes to making the most of information technology, you need to be able to see the whole picture as well as the detail.

Sema Group is one of Europe's leading consultancy and software engineering companies, serving the world market.

Our team of over 8,200 professionals is distributed in 60 locations throughout the major countries of Europe and the Pacific Rim. Our customers benefit from the stability and breadth of experience of a large international company, this is matched with the proximity and individual attention of a local supplier.

The Group's network of integrated services covers the full spectrum of information technology covering business and IT strategies, systems integration and development, software products and facilities management.

We support customers from all sectors of industry, commerce and government, helping them make the most of information technology for competitive advantage.

Regal House  
14 James Street  
London WC2E 8BT  
Tel : 071 830 4444

**SEMA**  **GROUP**

